



*Federal Aviation
Administration*



Leadership: In the Person Not the Position



- ◆ **Vision**
- ◆ **Self awareness**
 - ◆ Seeing yourself
 - ◆ An instrument
 - ◆ No buttons - thick skin
- ◆ **The Highroad**
 - ◆ Achieving your objective through others' interest
 - ◆ Understanding why – not caught up in “it”
 - ◆ 50% outside – 30% inside
- ◆ **Perseverance and risk taking**
- ◆ **Knowing the drivers**
- ◆ **The peculiarity of culture**

About the FAA Logistics Center



- The 600 employees of the FAA Logistics Center provide:
 - ◆ Supply, technical, and services support for the safe operation of the air traffic system
 - ◆ 24 hours a day, 365 days a year
- **In 1996 the Logistics Center was offering somewhat mediocre service, and was the target of many suggestions to be closed. The OIG was extremely critical of its inventory management practice, and the Logistics Center was a major stumbling block to an FAA clean financial bill of health.**

Anything is Possible

Outcomes Today



- **Top Performance in its class in the Government**
- **Reason Foundation example for Privatizing the FAA**
- **ISO 9000 certified**
- **President's Award for Management Excellence**
- **2001 President's Quality Finalist Award (only non-military related government organization to win)**
- **2000 President's Quality Merit Award Winner (only non-military government organization to win)**
- **2000 Pillar Award Honorable Mention (Office of Personnel Management)**
- **2001 GAO report case study as model for employee empowerment**
- **GAO recommended site for Performance Management Benchmarking**
- **Ted Gaebler's book example for strategic planning**
- **Management Concepts book example for strategic planning**
- **FAA Center for Management Development (CMD) Benchmark Site**
- **FAA First Annual Labor Management Partnership Award (2001)**
- **Speeches on Logistics Center story at the Oklahoma City Chamber of Commerce, International Productivity and Quality Conference; Brookings; Naval Post Graduate School; National Weather Service Leadership Program**
- **Government Executive Articles**

First Steps: Paving the Way



- ◆ **Management resistance**
- ◆ **Employee alignment**
- ◆ **Union engagement**
- ◆ **Communication**
- ◆ **A burning platform**

Union Engagement



From the 2nd Floor

What Does the Future Hold?

By Norman Bowles

I think with all the rumors that I have heard, or rumors employees have told me, the key questions many people have is "Is my job safe? Should I start looking for another job?" One person told me that her husband and she were thinking of buying a new house, but they were concerned about doing so. Someone else mentioned that their family wanted to add an addition to their house but didn't know whether it was a safe move. Another person told me her fellow employees were worried whether they should stay at the Logistics Center. What is the answer? Are our jobs safe? Should we be worried?

I would say that there are few guarantees about employment in the federal government these days. We all know the kinds of changes taking place both in the government and in FAA.

the repair jobs we performed, will decrease or even possibly disappear. At the same time, the store credit process will create new demands from our customers. Some types of work that we never performed before for them, they will want to buy. We are already seeing our customers ask for new products and services. This means we will be doing some new things, and this will create new work to offset work we lose.

Does this mean the store credit system has put our jobs at risk, or that we are more vulnerable than in the past? No, I do not think so. Four years ago, some very senior executives were saying the Logistics Center should be shut down. The NCARC report was suggesting consideration be given to privatizing some logistics functions. A former FAA Administrator, J. Lynn Helms,

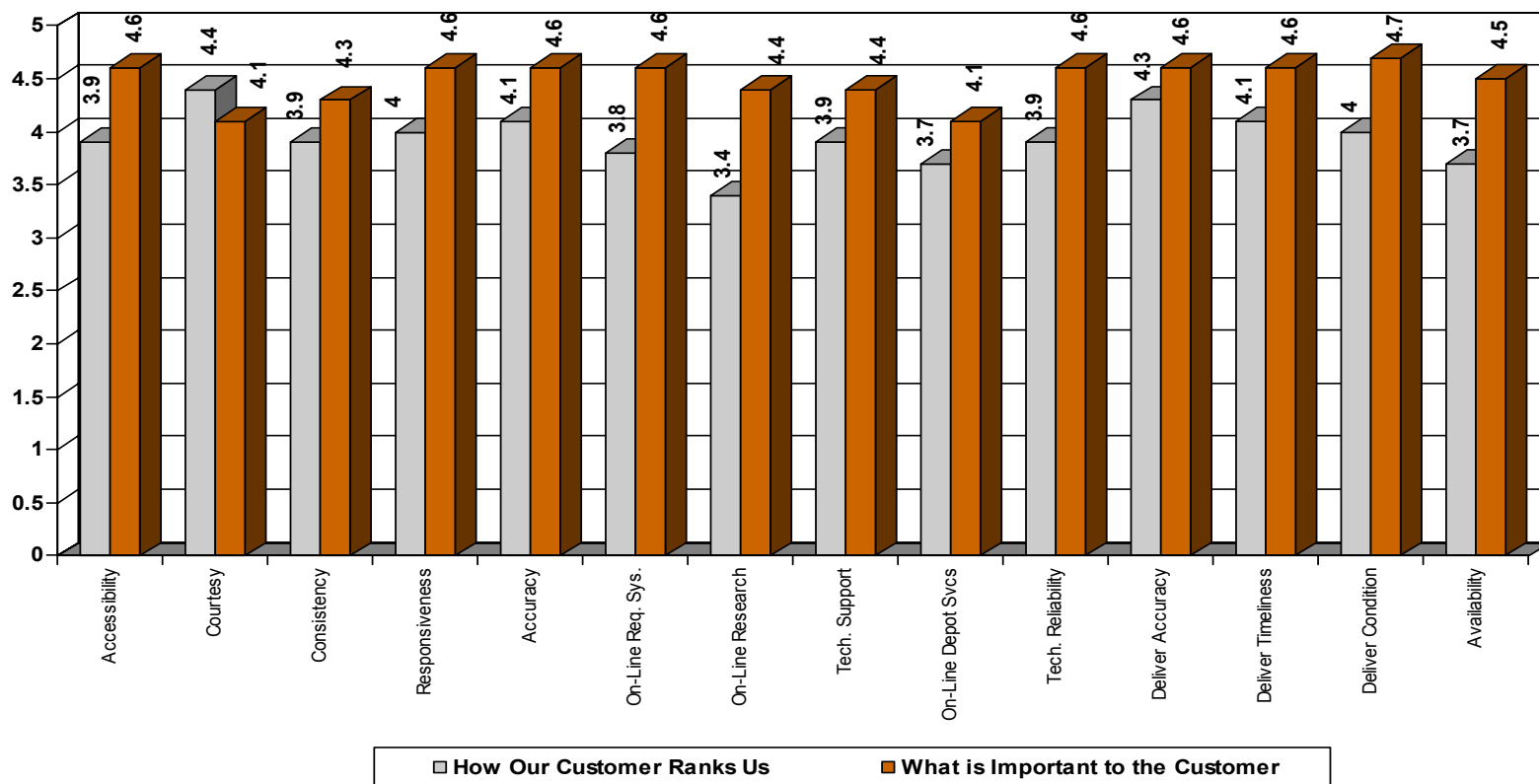
demand. Our challenge is to bring in work that offsets those changes. It is true that in the past we have not been successful in getting new work because we have had to turn away customers—we could not find a way to take their money. Our challenge is to find new ways to take in customer dollars.

If we get the franchise fund, then taking in customer funding is a cinch. It takes very little effort to accept customer funds and we have already developed the contracting mechanisms that allow our



Paving the Way A Burning Platform

FAA Logistics Center Customer Survey



Creating Drivers

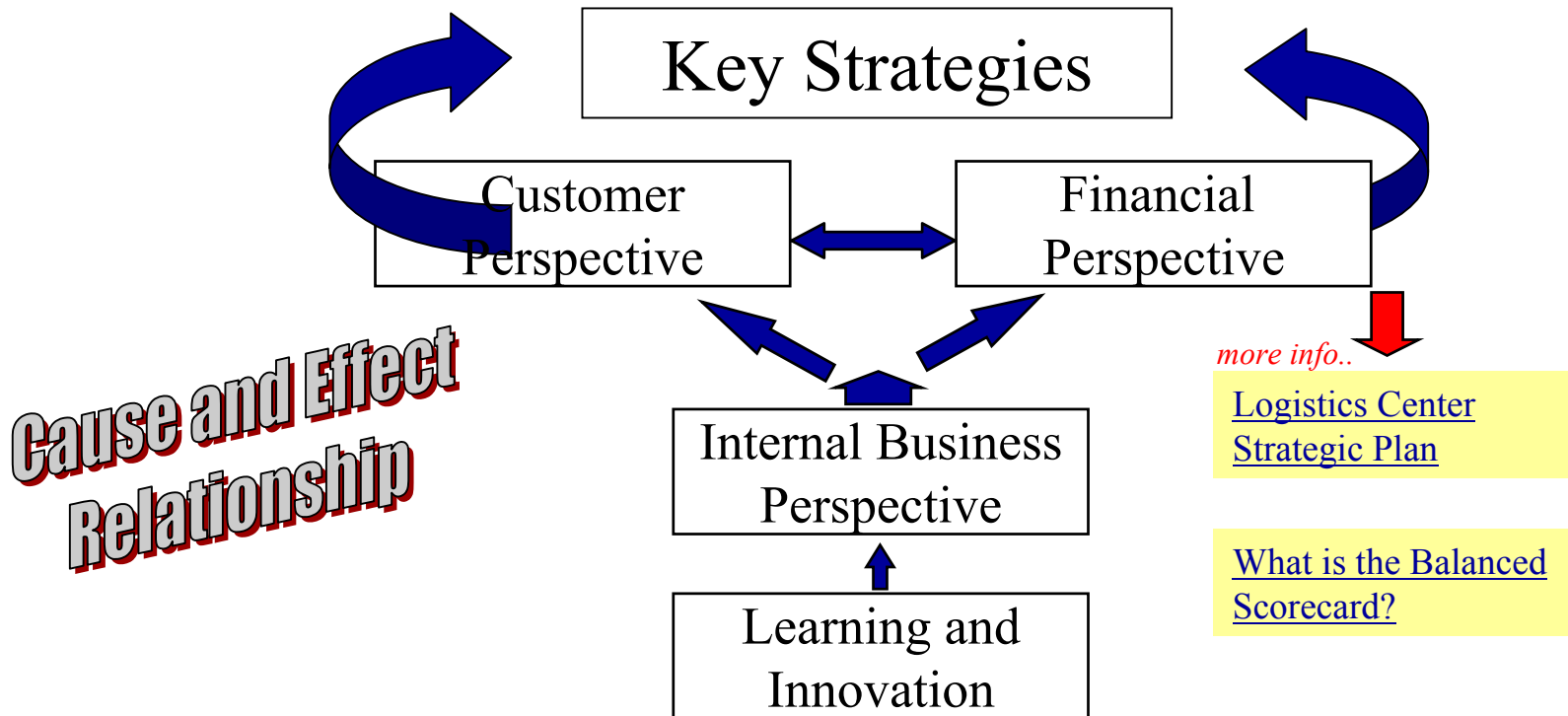


- ◆ A vision/plan
- ◆ ISO 9000
- ◆ Measures – build them and they will follow
- ◆ Creating a One Way Street
- ◆ New Financial Objectives

*Vision without action is a
daydream. Action without
vision is a nightmare.*

..Japanese proverb

Creating Drivers: A Vision/A Plan The Balanced Scorecard Framework



Creating Drivers: International Standard for Quality ISO 9000



<h2>ISO 9000 CERTIFICATE OF COMPLIANCE</h2>	
<p>This is to certify that the Quality Management System of: FEDERAL AVIATION ADMINISTRATION LOGISTICS CENTER AND NAS AUTOMATION & FACILITIES ACQUISITION DIVISION 6500 SOUTH MACARTHUR BOULEVARD OKLAHOMA CITY, OK 73125-4933</p>	
<p>has been assessed by ABS Quality Evaluations, Inc. and found to be in compliance with the following quality standards:</p>	
<p>ISO 9002</p>	
<p>The Quality Management System is applicable to:</p>	
<p>PROVISION OF PURCHASING, INVENTORY MANAGEMENT, REPAIRING, REFURBISHING, OVERHAULING, CALIBRATING AND DISTRIBUTING LINE ITEMS IN SUPPORT OF THE NATIONAL AIRSPACE SYSTEMS WORLDWIDE</p>	
<p>Certificate No.: Effective Date: Expiration Date: Rev. No./Date:</p>	<p>33464 12 August 1998 11 August 2001 0/12 August 1998</p>
<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;"> President, ABS Quality Evaluations, Inc. </div> <div style="text-align: center;"> </div> <div style="text-align: center;"> </div> </div>	
<p>Validity of this certificate is based on periodic audits of the management system defined by the above scope and is contingent upon prompt, written notification to ABS Quality Evaluations, Inc. of significant changes to the management system or components thereof.</p>	
<p>ABS Quality Evaluation, Inc. 16855 Northchase Drive, Houston, Texas 77060 U.S.A.</p>	

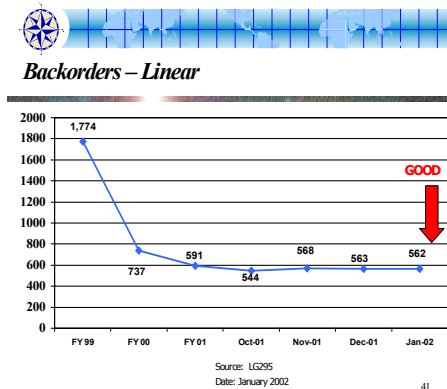
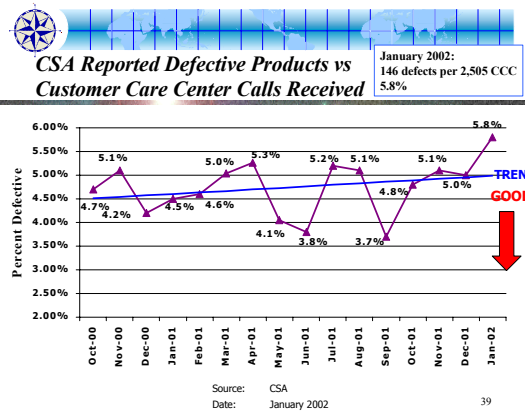
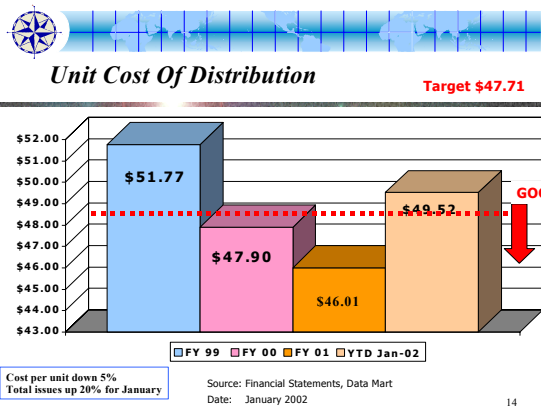
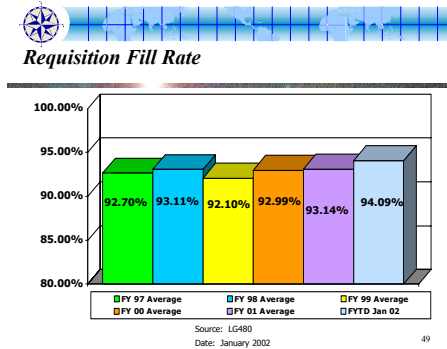
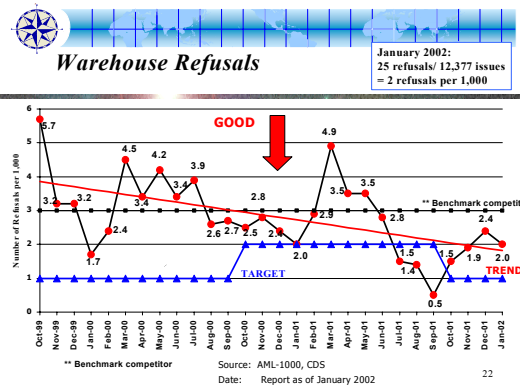
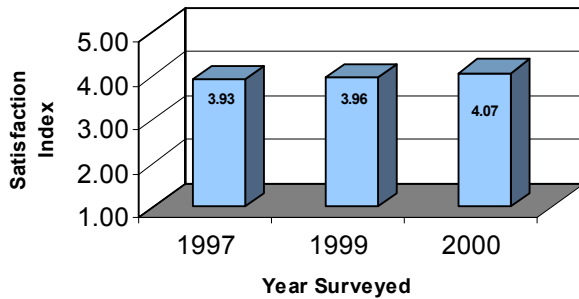


[More on
ISO 9000](#)

Creating Drivers: Measures



Customer Satisfaction Index



Creating Drivers: Creating the One Way Street “Past System”



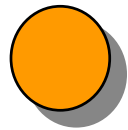
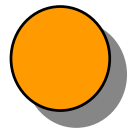
*FIELD
CUSTOMERS*



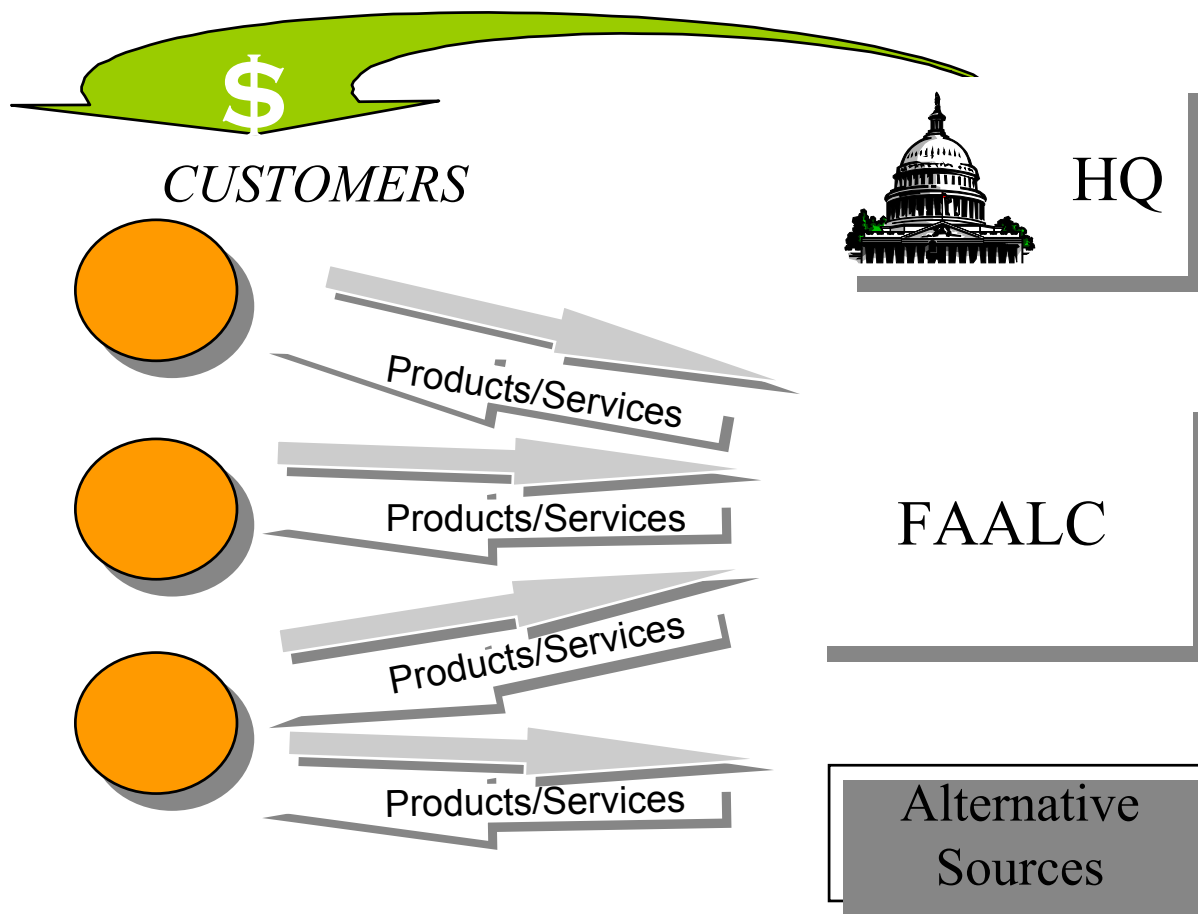
- Logistics Center finances based on appropriated dollars
- One-year appropriations
- Traditional free issue system with no financial accountability



Free Issue



Creating Drivers: Creating the One Way Street “New Private Sector System”



- Buyer - seller relationship
- Customer choice
- Best value discipline
- Visible cost of operations
- Recovery of costs
- Reduction in inventories
- Improved financial management
- Improved customer satisfaction and confidence
- No Year Appropriations



Revolving
Fund

Creating Drivers: FAA Logistics Center Financial Statement



FAALC Operating Statement Financial Statement All Divisions Combined Six Months Ended March 31, 2001												
In thousands												
	FY 00 Average Baseline	Percent of Sales	FY 00 Six Month Average	Percent of Sales	Oct-00	Nov-00	Dec-00	Jan-01	Feb-01	Mar-01	Year to Date FY 01	Percent of Sales
Sales												
Material Products	2,919	31.43%	2,562	29.94%	2,188	1,995	2,843	1,860	3,031	3,452	15,369	29.94%
E & R - In House	2,520	27.13%	1,391	16.26%	1,667	1,142	1,187	1,672	1,356	1,322	8,346	16.26%
E & R - Commercial	1,693	18.23%	2,264	26.47%	2,189	2,224	2,149	2,607	2,006	2,411	13,586	26.47%
Direct Ship	1,589	17.11%	1,146	13.40%	841	1,111	1,007	1,219	1,322	1,379	6,878	13.40%
Other Service	566	6.09%	1,193	13.94%	1,427	1,429	1,328	993	1,076	903	7,156	13.94%
Net Sales (1)	9,287	100.00%	8,556	100.00%	8,312	7,901	8,514	8,351	8,791	9,466	51,335	100.00%
Cost of Goods Sold (1)	(6,325)	-68.11%	(5,508)	-64.38%	(5,252)	(5,039)	(5,397)	(5,332)	(5,858)	(6,172)	(33,050)	-64.38%
Gross Margin												
Material Products	1,023	35.05%	874	34.12%	762	668	921	643	1,017	1,233	5,244	34.12%
E & R - In House	932	36.98%	508	36.52%	592	409	413	684	475	475	3,048	36.52%
E & R - Commercial	609	35.97%	786	34.72%	738	781	775	898	696	830	4,717	34.72%
Direct Ship	140	8.81%	102	8.92%	45	83	88	133	128	137	614	8.92%
Other Service	263	46.47%	777	65.15%	921	921	921	662	618	618	4,663	65.15%
Total Gross Margin (1)	2,967	31.95%	3,047	35.62%	3,060	2,862	3,117	3,019	2,933	3,293	18,285	35.62%
Expenses												
Air Craft	(47)	-0.51%	(49)	-0.57%	(50)	(51)	(48)	(45)	(48)	(51)	(293)	-0.57%
Automation	(111)	-1.19%	(143)	-1.68%	(109)	(154)	(139)	(168)	(139)	(152)	(861)	-1.68%
Radar	(187)	-2.02%	(186)	-2.17%	(150)	(165)	(164)	(156)	(211)	(270)	(1,116)	-2.17%
Communications	(121)	-1.30%	(132)	-1.54%	(119)	(121)	(155)	(95)	(157)	(146)	(793)	-1.54%
Product Services	(210)	-2.26%	(259)	-3.02%	(342)	(205)	(227)	(204)	(281)	(292)	(1,551)	-3.02%
Nav/Land/Weather	(213)	-2.29%	(223)	-2.60%	(193)	(239)	(203)	(216)	(257)	(230)	(1,336)	-2.60%
Distribution	(733)	-7.89%	(655)	-7.65%	(549)	(636)	(663)	(713)	(634)	(732)	(3,927)	-7.65%
Director	(67)	-0.72%	(88)	-1.03%	(40)	(45)	(51)	(180)	(111)	(103)	(531)	-1.03%
BSG	(282)	-3.04%	(256)	-2.99%	(232)	(320)	(239)	(243)	(263)	(239)	(1,536)	-2.99%
QSG	(288)	-3.10%	(271)	-3.17%	(317)	(283)	(275)	(219)	(244)	(288)	(1,626)	-3.17%
ISG	(593)	-6.39%	(607)	-7.09%	(774)	(648)	(609)	(537)	(554)	(518)	(3,640)	-7.09%
Total Expenses	(2,852)	-30.70%	(2,868)	-33.52%	(2,874)	(2,867)	(2,774)	(2,776)	(2,899)	(3,021)	(17,210)	-33.52%
Margin From Operations	115	1.24%	179	2.09%	186	(5)	344	243	34	273	1,075	2.09%
Resource Utilization					Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annualized	
Inventory Turnover	0.43				0.43	0.40	0.38	0.39	0.38	0.38	0.38	
Annualized Return on Capital	0.30%				0.49%	0.24%	0.46%	0.51%	0.42%	0.46%	0.46%	
Sales/Employee	15.66				14.23	13.60	14.71	14.37	15.00	16.15	175.20	
Gross Margin/Employee	5.00				5.24	4.93	5.38	5.20	5.01	5.62	62.40	
Inventory	457,851				455,173	453,613	455,001	455,699	460,897	462,516		
Number of Employees	593				584	581	579	581	586	586		

Confidential - For Internal Management Purposes Only

(1) Retail sales and gross margin figures were calculated by applying the Fee for Service rate tables to each category of business. While this practice may produce figures that are not exactly the same as what would be reported using a reliable billing and financial reporting system, the figures are believed to be reasonably reliable for internal management purposes.



FAALC
Financial
Dictionary

Reinforcing the New or Undermining the Status Quo



- ◆ Employee teams
- ◆ Benchmarking
- ◆ Moving relentlessly
- ◆ New blood
- ◆ Changing the structure
- ◆ Bonus Program

Reinforcing the New or Undermining the Status Quo: Formation of Special Teams



Examples:

- ◆ **Cost and Performance Management**
- ◆ **“Data-mart”**
- ◆ **ISO Certification – Quality Management**
- ◆ **Fee-for-Service**
- ◆ **Customer Service**
- ◆ **Communication and Marketing**
- ◆ **Logistics Support Facility Modernization**
- ◆ **Organizational Realignment**

Reinforcing the New or Undermining the Status Quo Benchmarking The Best Practices



Oklahoma Department of Commerce
Pace-Butler, Oklahoma City, OK
Defense Distribution Depot, Jacksonville, FL
Defense Distribution Depot, Oklahoma City, OK
Century Inc., Oklahoma City, OK
Dana Corp., Oklahoma City, OK
Defense Distribution Depot, Warner Robins, GA
Southwestern Distribution Center, Fort Worth, TX
NCR Worldwide Service Logistics, Peachtree, GA
Charles Machine Works (Ditch Witch), Perry, OK
Defense Logistics Agency, Mechanicsburg, PA

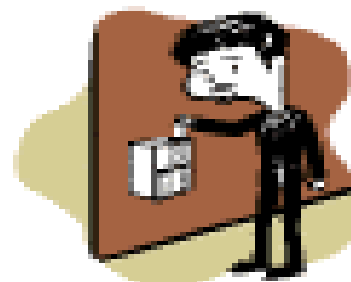
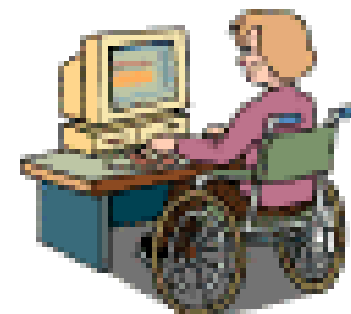
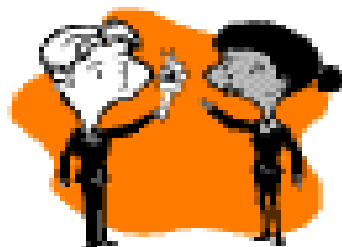
City of Indianapolis, Indianapolis, IN
Harris Corporations, Melbourne, FL
DSC Communications, Plano, TX
Eaton Corp., Shawnee, OK
Charles Machine Works (Ditch Witch), Perry, OK
Goff Industries, Seminole, OK
Seagate Corp., Oklahoma City, OK
Love Box Corp., Oklahoma City, OK
US Coast Guard Yard, Baltimore, MD
Naval Surface Warfare Center, Philadelphia, PA
City of Phoenix, Phoenix, AZ

Reinforcing the New or Undermining the Status Quo: FAA Logistics Center Improvement Initiatives

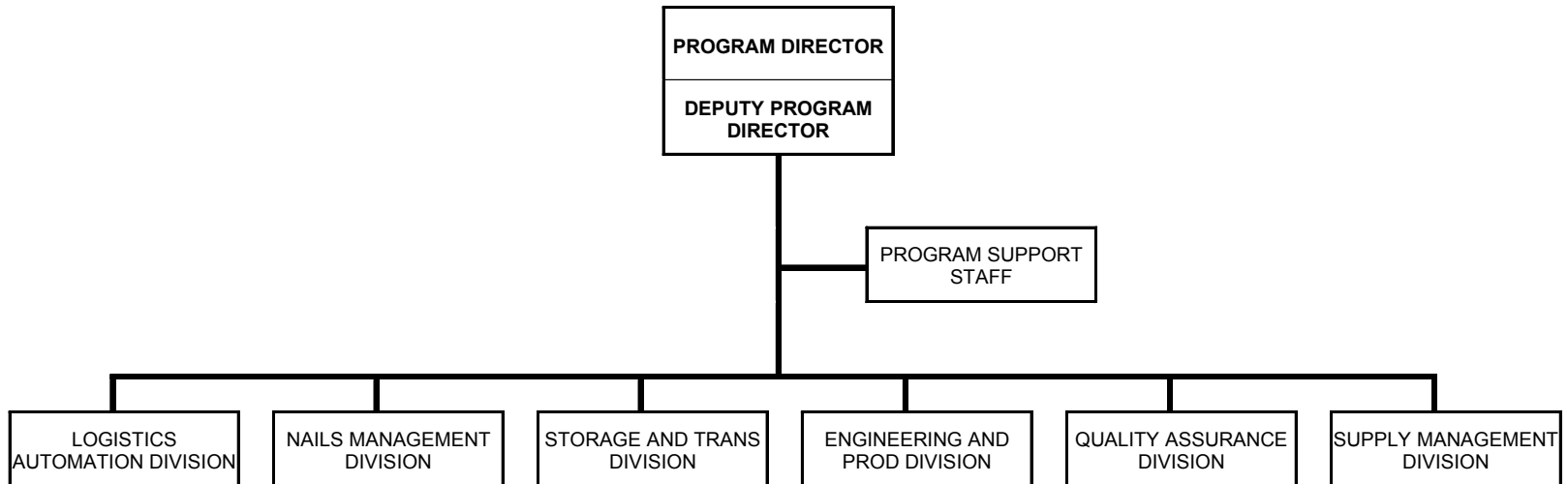


- ◆ Bar Coding
- ◆ Distribution Center Modernization
- ◆ Data Mart
- ◆ Reorganization
- ◆ Management/Supervisory Competency Modeling and Training Assessment
- ◆ World Class and Executive Financial Training
- ◆ Customer Surveys
- ◆ ISO 9000 Certification
- ◆ Y2K Initiative
- ◆ Business Process Engineering
- ◆ Customer Care Center
- ◆ Revamp Financial System
- ◆ Convert to Financial Statements
- ◆ Redesign Inventory Practices
- ◆ Changing the Source of Revenue

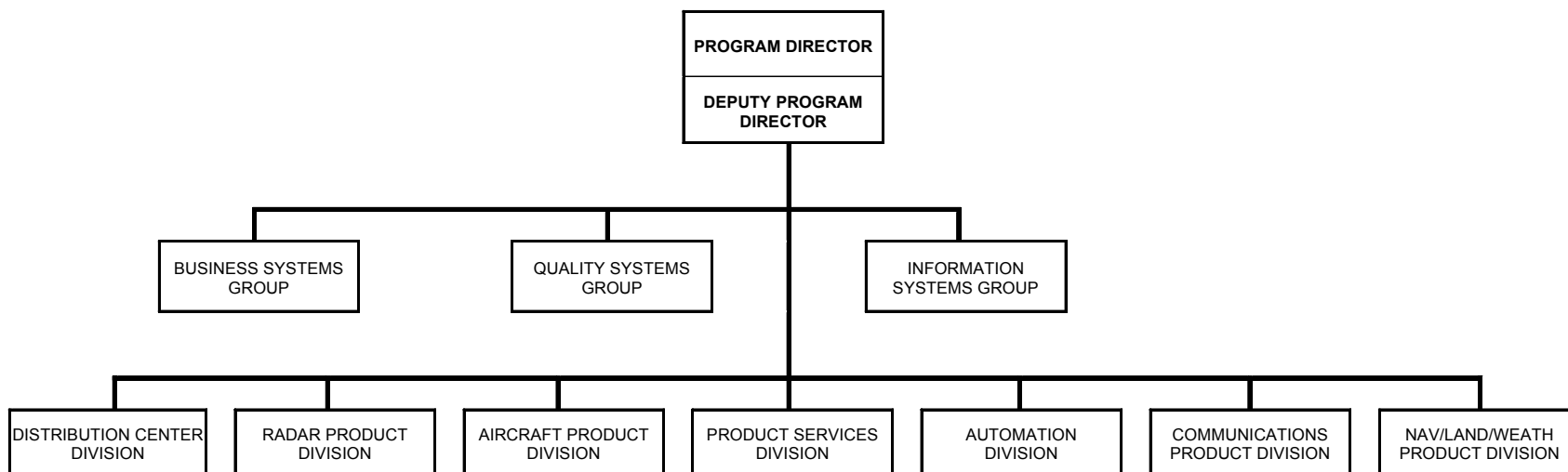
New Blood



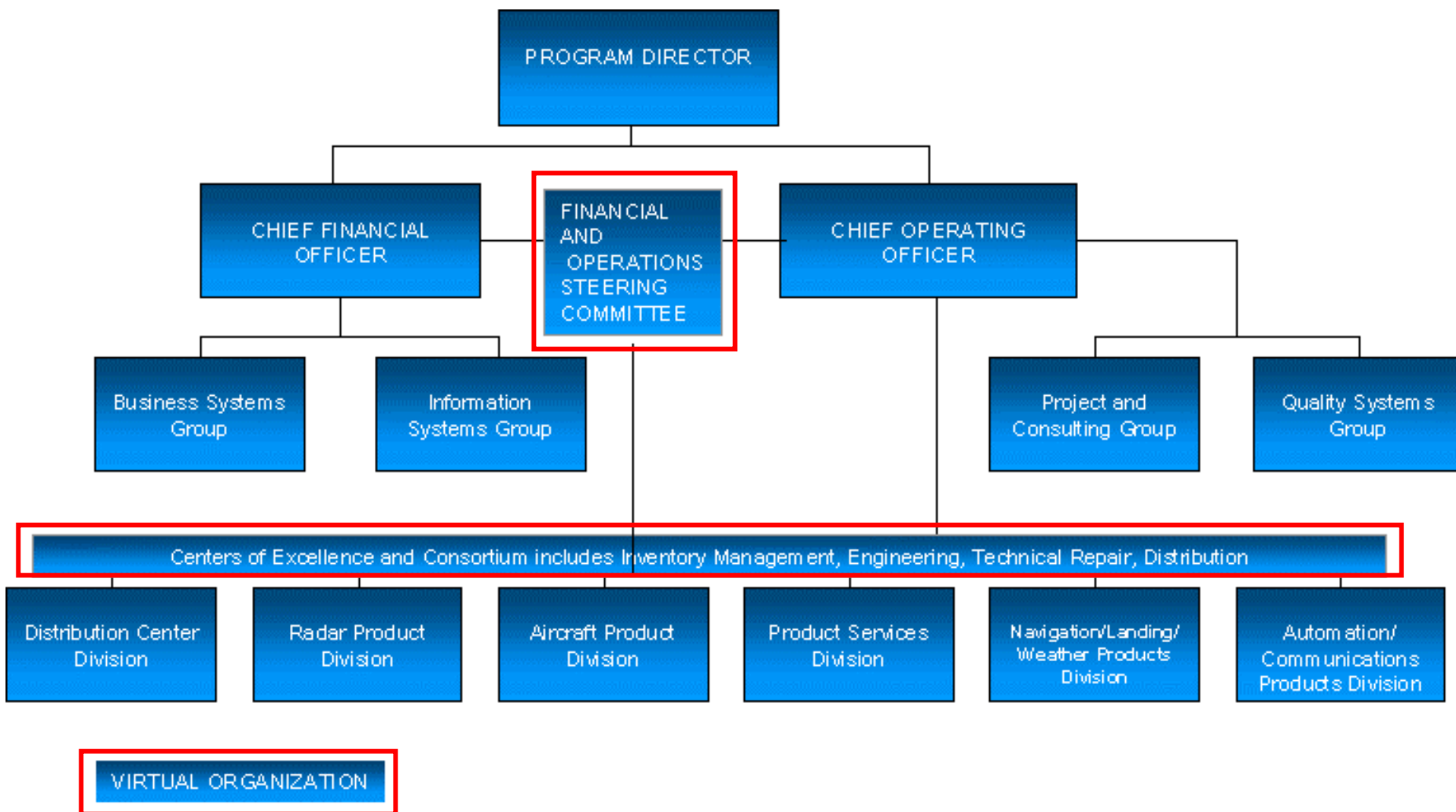
Reinforcing the New or Undermining the Status Quo: Logistics Center Prior to 1999



Reinforcing the New or Undermining the Status Quo:
Logistics Center
January 1999 – April 2001



Reinforcing the New or Undermining the Status Quo: Logistics Center April 2001



Creating a Sustainable Virtual Organization



In 1999, the Logistics Center reorganized from a functional alignment to a product alignment.

A functionally aligned organization centers its expertise in separate organizations, such as engineering department, item management department, quality department, etc. In this type of structure, almost every element in the organization plays a role in final delivery of the product to the customer. Most organizations use this type of structure because it is a simple structure to understand and maintain. All like functions are consolidated in a single unit that is often headed by a technical expert in the field. The disadvantage to this approach for organizations that provide products or services is that accountability for product delivery or service is lost. When the Logistics Center was aligned functionally, every organization touched every product, i.e. radar, navigation, aircraft, etc. So many organizations touched the product or service that responsibility was diffused or obscured or compromised in the hand off that took place between organizational elements.

A product alignment organizes around products, and the Logistics Center made a change to this structure in 1999. Today our major line organizations are centered around radar; navigation and landing; aircraft; etc. In this structure, each product division has its own complement of engineers, technicians, item managers, etc. The managers are no longer valued for technical expertise, but instead for management expertise. The advantage of this structure is that there is total accountability to the customer for each product. If there is a problem with a radar product, for example, the problem probably emanated from the radar organization. The disadvantage to this structure is maintaining standards within each discipline, such as engineering or item management, because the expertise is diffused throughout the Logistics Center.

In addressing this problem the Logistics Center had a choice: it could either create a central policy organization charged with maintaining professional standards, or it could create virtual "centers of excellence". Each center of excellence (COE) would be comprised of the top expert in the respective discipline in each product division. The COE would be responsible for standards and maintaining "process integrity."

Creating a Sustainable Virtual Organization (Cont'd)



Little did we know that this organizational concept would grow by itself into one of the most defining aspect of the Logistics Center's organizational performance. When the Logistics Center gave its entire budget back to the customers and started charging its customers for services (See the booklet, [Paradigm Shift-Boosting Performance using a Private sector approach](#)), the Center needed to make hundreds of complex changes in the way it did business. The Logistics Center management turned to the Centers of Excellence to lead these changes. Soon the COEs were making all the changes to their respective processes to conform to the new business rules. Each COE learned quickly that their respective changes had impacts on the other COE's processes. Their response was to create a consortium comprised of COE leaders. In this forum, they discussed their pending changes to determine whether there were cross cutting impacts. This worked wonders, but soon it became apparent that sometimes the consortium could not resolve all differences. The differences could not always be resolved because the differences themselves often implied a policy option that required a management decision.

This led the consortium to approach management to request the creation of a steering committee that could make decisions when two or more COEs could not resolve a difference. That organization was created and was called the Financial and Operations Steering Committee. Since changes are always underway, these COEs meet on daily or weekly bases, and the F&O steering committee meets for two hours every two weeks with a full agenda.

This virtual organization structure has proven so effective that the Logistics Center has the capability to literally turn on a dime. If a new policy direction is selected, or a major business change occurs, the Consortium and COEs are already in place to crank out coordinated, new, end-to-end processes. In the two years that the COE for item managers has existed, it has made more than 200 changes to their work instructions.

Bonus Program



The FAALC Performance Bonus Made Easy



[More on
Perf. Bonus](#)



(Your guidebook to the 2002
Workforce Recognition Program)

The Issues



- ◆ **Institutional resistance**
- ◆ **Employee lack of information and need to vent**
- ◆ **Upper level perceptions**



Creating a
Customer
Driven
Environment